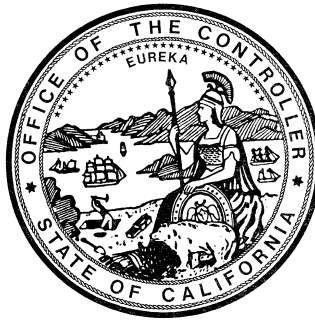


PATEL & ASSOCIATES, CPA

Review Report

QUALITY CONTROL REVIEW

For the Firm's Audit of
North Monterey County Unified School District
for the Fiscal Year Ended June 30, 2002



STEVE WESTLY
California State Controller

January 2006



STEVE WESTLY
California State Controller

January 20, 2006

Ramesh Patel, CPA
Patel & Associates, CPA
266 17th Street, Suite 200
Oakland, CA 94612

Dear Mr. Patel:

The State Controller's Office completed a quality control review of Patel & Associates, CPA. We reviewed the audit working papers for the firm's audit of North Monterey County Unified School District for the fiscal year ended June 30, 2002.

We issued a draft report on November 9, 2005. The firm's response to the draft report is included in our final report.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

"original signed by"

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ams

cc: William D. Barr, Superintendent
Monterey County Office of Education
Carolyn Post, Superintendent
North Monterey County Unified School District
Arlene Matsuura, Educational Consultant
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems, Department of Finance

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Review Report

Summary

The State Controller's Office (SCO) completed a quality control review of Patel & Associates, CPA's working papers for an audit of the North Monterey County Unified School District for the fiscal year ended June 30, 2002 (FY 2001-02). The last day of fieldwork was February 5, 2004.

The firm's audit was performed in accordance with or substantially complied with the majority of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO. However, we noted the following exception: the firm did not fully comply with GAGAS with regard to fieldwork standards.

Background

A single audit of any governmental unit must be performed in accordance with the standards referred to in this report. According to OMB Circular A-133, the auditor's work is subject to a quality control review at the discretion of an agency granted cognizant or oversight status by the federal funding agency. In addition, *Education Code* Section 14504.2 authorizes the SCO to perform quality control reviews of working papers for audits of K-12 local educational agencies (LEAs) to determine whether audits are performed in accordance with U.S. General Accounting Office standards for financial and compliance audits.

Patel & Associates, CPA, is an independent certified public accounting firm with an office located in Oakland, California. The firm consists of one partner. The firm has been the independent auditor for North Monterey County Unified School District since FY 1998-99. During FY 2001-02, the district operated four elementary schools, two middle schools, and a comprehensive high school, with a total average daily attendance (ADA) of 6,003 for the purpose of State funding.

Objectives, Scope, and Methodology

The general objectives of our quality control review were to determine whether this audit was conducted in compliance with:

- GAGAS
- GAAS
- K-12 Audit Guide
- OMB Circular A-133

We conducted the quality control review at the office of Patel & Associates, CPA. We compared the audit work performed by the firm, as documented in the working papers, with the standards stated in the general objectives.

Conclusion

Patel & Associates, CPA's audit was performed in accordance with the standards and requirements set forth in GAGAS, GAAS, OMB Circular A-133, and the K-12 Audit Guide. However, we noted the exception discussed in the Finding and Recommendation section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Patel & Associates, CPA.

Views of Responsible Official

We issued a draft report on November 9, 2005. Mr. Patel responded by letter dated November 28, 2005, agreeing with the review results, but requesting a revision to the report language. The final report includes the revised language. The final report includes the firm's response as the Attachment.

Restricted Use

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.

“original signed by”

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Finding and Recommendation

General

The Single Audit Act and the *Standards and Procedures for Audits of K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO, require that audits be performed in accordance with U.S. generally accepted auditing standards (GAAS). These standards govern the quality of the audits performed by independent auditors and have been approved and adopted by the American Institute of Certified Public Accountants (AICPA). GAAS is divided into three areas: (1) general standards; (2) fieldwork standards; and (3) reporting standards. The three areas are divided into 10 specific standards. Auditors of governmental entities must also perform audits in accordance with generally accepted government auditing standards (GAGAS), which expands GAAS in several areas.

In the course of this quality control review, we found that Patel & Associates, CPA did not comply with some of the GAGAS standards related to fieldwork for financial audits.

Noncompliance With Generally Accepted Government Auditing Standards (GAGAS)

FINDING— Fund requirement deficiencies

The firm did not determine whether the district complied with specific fund requirements, as evidenced by the following.

- For the deferred maintenance fund, the firm did not perform adequate procedures to determine whether all expenditures were listed on an approved five-year plan.
- For the building fund, the firm did not perform specific audit procedures to ensure that the district's bidding practices were in compliance with the Public Construction Act.

Education Code Section 41020(c), states, in part:

Each audit conducted in accordance with this section shall include all funds of the local educational agency, including the student body and cafeteria funds and accounts and any other funds under the control or jurisdiction of the local educational agency. . . .

Education Code Section 17591, states, in part:

Each district desiring an apportionment pursuant to Section 17584 [for deferred maintenance] shall file with the State Allocation Board and receive approval of a five-year plan of the maintenance needs of the district over that five-year period. . . . Any expenditure of funds from the district deferred maintenance fund shall conform to the plan approved by the State Allocation Board.

Public Contract Code Section 20100 states, in part:

. . . a public entity subject to this part may require that each prospective bidder for a contract complete and submit to the entity a standardized questionnaire and financial statement in a form specialized by the entity, including a complete statement of the prospective bidder's experience in performing public works. . . .

GAGAS 4.29 states, in part:

AICPA standards and GAGAS require auditors to design the audit to provide reasonable assurance that financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. To meet that requirement, auditors should have an understanding of internal control relevant to financial statement assertions affected by laws and regulations. Auditors should use that understanding to identify types of potential misstatements, consider factors that affect the risk of misstatement and design substantive tests. . . .

GAGAS 4.35 states:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' conclusions and judgments.

GAGAS 4.37 states, in part:

Working papers should contain . . . b. documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records. . . .

If adequate procedures are not performed and documented, noncompliance with fund requirements may exist and not be detected.

Recommendation

The firm should perform and document adequate audit procedures to ensure that the district has complied with all fund requirements. In addition, the firm should comply with all GAGAS related to fieldwork for financial audits.

**Attachment—
Firm's Response to Draft Report**

**Patel &
Associates**

Certified Public Accountant

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Oakland, California 94612-4124

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November 28, 2005

Mr. Jeffrey V. Brownfield, CPA
Chief Division of Audits
California State Controller's office
P.O. Box 942850
Sacramento, CA 94250-5874

**Re: Quality Control review of audit working papers for the
firm's audit of North Monterey County Unified School
District for the fiscal year ended June 30, 2002**

Dear Mr. Brownfield:

We refer to your letter and report dated November 9, 2005 and received by us on November 18, 2005. Our response is as follows:

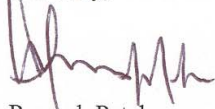
Since we complied with (1) general standards; (2) fieldwork standards; and (3) reporting standards, we were at the exit conference informed that we were in **substantial** compliance with the standards. The minor exception being with deferred maintenance fund. The deferred maintenance fund was the smallest of all the funds within special revenue funds. Because the fund was not material, our auditing procedures were limited to making inquiries and analytical procedures. Also in our cash disbursement testing, the Districts procurement/bidding practice or policy was reviewed to ensure it's compliance.

Though no specific transaction from the deferred maintenance fund may have been selected for testing due to the size of the fund, the disbursement process if a transaction had been selected from the fund would be the same as the District's overall procurement process.

Because of the above, we want a minor modification to the wording on page 3. The last paragraph under "General" In the course..... that Patel & Associates, CPA **substantially** complied with GAGAS Standards except for the following:

Thank you for your consideration. We can be reached at (510) 452-5051 for any questions or clarification.

Sincerely,



Ramesh Patel
Principal

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>